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ACTION EB-01

ACDA-17 ACDE-00 AID-01 CEA-01 CEO-00 ARA-01 INFO LOG-00 CTME-00 OASY-00 DINT-01 DOEE-00 EXIM-01 E-00 FRB-01 TEDE-00 INR-00 IO-16 ITC-01 JUSE-00 L-01H-01 NSAE-00 NSCE-00 NSF-01 OES-09 OIC-02 OMB-01 ADS-00 SP-00 PRS-01 SNP-00 SSO-00 SS-00 OPIC-01 PM-00 USIE-00 EPAE-00 PMB-00 DRL-09 T-00 STR-01 TRSE-00 G-00 /068W

-----941CE1 191417Z /38

R 191405Z DEC 94 FM AMEMBASSY BOGOTA TO SECSTATE WASHDC 5910 INFO USDOC WASHDC DIA WASHDC AMEMBASSY PANAMA AMEMBASSY QUITO AMEMBASSY CARACAS CIA WASHDC USDOE WASHDC

LIMITED OFFICIAL USE SECTION 01 OF 03 BOGOTA 018392

E.O. 12356: DECL: OADR

TAGS: EPET, ENRG, SENV, EINV, CO

SUBJECT: VISIT TO CANO LIMON OIL FIELD AND COVENAS OIL

EXPORT TERMINAL

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BOGOTA 18392 01 OF 03 191407Z PAGE 02 REF: A) 93 BOGOTA 15833, B) 94 BOGOTA 17454

(U) SUMMARY: AMBASSADOR AND EMBOFFS VISITED THE CANO LIMON OIL FIELD AND COVENAS EXPORT TERMINAL NOVEMBER 28 AND 29, REPEATING A VISIT MADE LAST YEAR BY EMBOFFS (SEE REF A). PRODUCTION CAPACITY HAS INCREASED FROM 215,000 BARRELS/DAY (B/D) OF OIL IN 1993 TO 235,000 B/D IN 1994. HOWEVER, GUERRILLA ATTACKS ON THE PIPELINE CONNECTING CANO LIMON TO COVENAS HAVE RESULTED IN LOWER PRODUCTION AVERAGES. TO DATE IN 1994, THE PIPELINE HAS BEEN ATTACKED 41 TIMES, COMPARED WITH 36 TIMES FOR

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UNITED STATES DEPARTMENT OF STATE REVIEW AUTHORITY: OSCAR J. OLSON DATE/CASE ID: 5 NOV 2002 200201334

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1993. NEVERTHELESS, OCCIDENTAL INTENDS TO PURSUE THE EXPLOITATION OPPORTUNITIES, AND INCREASE THE PROFITABILITY OF ITS OPERATIONS. END SUMMARY.

OILFIELD OPERATIONS

- 2. (U) ON NOVEMBER 28, AMBASSADOR AND EMBOFFS VISITED THE OILFIELD AT CANO LIMON (PHONETICALLY CAHNYOH LEEMOAN) AND THE MARINE TERMINAL AT COVENAS (PHONETICALLY COVENYAS) AT THE INVITATION OF STEVE NEWTON, THE PRESIDENT OF OCCIDENTAL PETROLEUM FOR COLOMBIA. THE VISIT RETRACED A TRIP MADE BY EMBOFFS IN 1993. REF A PROVIDES AN EXCELLENT OVERVIEW OF OPERATIONS AT THE SITES; THIS CABLE UPDATES THAT INFORMATION AND PROVIDES SOME ADDITIONAL DETAILS.
- 3. (LOU) PER THE ASSOCIATION CONTRACT BETWEEN ECOPETROL (50 PERCENT PARTNER), OCCIDENTAL (25 PERCENT), LIMITED OFFICIAL USE

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 AND SHELL OIL COMPANY (25 PERCENT), OCCIDENTAL OPERATES
 THE OILFIELD AT CANO LIMON. ECOPETROL OPERATES THE
 PIPELINE CONNECTING THE OILFIELD WITH THE TERMINAL
 FACILITY AT COVENAS, AS WELL AS THE TERMINAL FACILITY
 ITSELF. SHELL IS A SILENT PARTNER WITHOUT ANY
 OPERATIONAL RESPONSIBILITIES. EACH PARTNER MARKETS ITS
 OWN OIL, EXCEPT FOR 20 PERCENT OF THE PRODUCTION WHICH
 IS EARMARKED FOR REFINING IN COLOMBIAN REFINING
 FACILITIES IN CARTAGENA AND BARRANCABERMEJA. ABOUT 95
 PERCENT OF THE OIL EXPORTED GOES TO HOUSTON. ACCORDING
 TO STEVE NEWTON, OCCIDENTAL LAST YEAR WON THE LEGAL
 RIGHT TO OPERATE THE PIPELINE, BUT AS YET HAS NOT OPTED
 TO EXERCISE THAT RIGHT.
- 4. (LOU) PRODUCTION CAPACITY HAS INCREASED FROM 215,000 BARRELS/DAY (B/D) OF OIL IN 1993 TO 235,000 B/D IN 1994, FROM THE 81 PRODUCTION WELLS OPERATING IN THE AREA. HOWEVER, GUERRILLA ATTACKS ON THE PIPELINE HAVE RESULTED IN LOWER PRODUCTION AVERAGES, SIMILAR TO THOSE OF THE PREVIOUS YEAR (ABOUT 205,000 B/D). MR. NEWTON ALSO MENTIONED THAT PRODUCTION LEVELS ARE EXPECTED TO PEAK IN 1995, SINCE THE FIELD HAS ALREADY PASSED THE HALFWAY MARK IN ITS EXPECTED LONGEVITY. TO OFFSET THE DECLINING PRODUCTION, THE COMPANY HAS BEGUN REINJECTING WATER AND

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HAS PLANS TO DRILL WITHIN THE NEXT TWO YEARS ANOTHER 41 WELLS IN THE FIELD. ALTHOUGH THE PARENT COMPANY HAS EXPRESSED SOME DOUBTS ABOUT THE CAPITAL INFUSION, MR. NEWTON IS CONFIDENT THE PLANS WILL GO FORWARD, GIVEN THE HIGH PROFITABILITY OF THE WELLS. THE COST OF DRILLING ONE WELL IS ONLY ABOUT US 2 MILLION DOLLARS, COMPARED WITH US 25 MILLION FOR THE WELLS IN THE CUSIANA LIMITED OFFICIAL USE

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BOGOTA 18392 01 OF 03 191407Z PAGE 04 FORMATION RECENTLY BROUGHT IN BY BP (REF B). COSTS AT CANO LIMON HAVE INCREASED OVER 41 PERCENT IN THE LAST THREE YEARS DUE TO REVALUATION OF THE COLOMBIAN PESO, BUT ARE ONLY US 2.62 DOLLARS PER BARREL.

(LOU) ACCORDING TO CAMILO GOMEZ GARZON, ONE OF THE SECURITY CHIEFS FOR THE CANO LIMON OILFIELD, THE FIELD ITSELF HAS ONLY BEEN ATTACKED THREE TIMES, THE LAST TIME FOUR YEARS AGO. HOWEVER, MR. GOMEZ NOTED THAT THE 760-KILOMETER LONG PIPELINE VERY DIFFICULT TO PROTECT. THERE HAVE BEEN 341 ATTACKS ON THE CANO LIMON-COVENAS PIPELINE SINCE IT WAS COMPLETED IN 1985. TO DATE IN 1994, THE PIPELINE HAS BEEN ATTACKED 41 TIMES, COMPARED WITH 36 TIMES FOR 1993, AND THE HISTORICAL PEAK OF 62 TIMES IN 1992. NOT ALL OF THE ATTACKS RESULT IN A RUPTURE OF THE UNDERGROUND PIPELINE, UT DENTS DO WEAKEN THE PIPELINE AND RESTRICT THEFLOW OF CRUDE. MR. NEWTON STATED THAT THE COMPANY CALCULATES 13 PERCENT DOWNTIME ANNUALLY DUE TO THE ATTACKS. HE ESTIMATES THAT THE RESULTING UNCERTAINTY IN DELIVERY CAUSES A US 50 CENT REDUCTION IN THE PRICE PER BARREL OF OIL THAT HE CAN SELL, AND ESTIMATES THAT THE GUERRILLAS COST OCCIDENTAL AND THE GOVERNMENT OF COLOMBIA 18 PERCENT IN REDUCED

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LOG-00 ACDA-17 ACDE-00 AID-01 ARA-01 CEA-01 CTME-00 OASY-00 DINT-01 DOEE-00 EXIM-01 E-00 CEQ-00 INFO LOG-00 FRB-01 TEDE-00 INR-00 IO-16 ITC-01 JUSE-00 L-01 H-01 NSAE-00 NSCE-00 NSF-01 OES-09 OIC-02 OMB-01 ADS-00

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OPIC-01 PM-00 PRS-01 SNP-00 SP-00 SSO-00 SS-00 STR-01 TRSE-00 T-00 USIE-00 EPAE-00 PMB-00 DRL-09

G-00 /068W

-----941CF1 191418Z /38

R 191405Z DEC 94
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC 5911
INFO USDOC WASHDC
DIA WASHDC
AMEMBASSY PANAMA
AMEMBASSY QUITO
AMEMBASSY CARACAS
CIA WASHDC
USDOE WASHDC

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E.O. 12356: DECL: OADR
TAGS: EPET, ENRG, SENV, EINV, CO
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PAGE 02 BOGOTA 18392 02 OF 03 191408Z REVENUES EACH YEAR.

- 6. (U) THE FLUID LIFTED FROM THE FORMATION IS AN EMULSION OF FRESH WATER AND CRUDE PETROLEUM. LAST YEAR, WATER LEVELS INCREASED TO 1,200,000 B/D. THE WATER IS FED BY AN AQUIFER ORIGINATING IN THE ANDEAN MOUNTAIN RANGES, AND MAINTAINS THE OILFIELD PRESSURE. EMBOFFS VISITED THE SEPARATING FACILITIES AND THE WATER TREATMENT FACILITIES, WHICH REDUCE THE AMOUNT OF OIL IN THE FRESH WATER RELEASED INTO THE ENVIRONMENT TO 16 PARTS PER MILLION. TO COOL THE WATER, WHICH REACHES THE SURFACE AT 160 DEGREES FAHRENHEIT, THE WATER IS STILL SPRAYED STRAIGHT UP INTO THE AIR AND ALLOWED TO COOL IN A NUMBER OF LARGE PONDS ON SITE. A SMALL AMOUNT OF THE WATER IS NOW BEING USED FOR REINJECTION TO INCREASE PRODUCTION IN OIL POCKETS ISOLATED BY FRACTURES FROM THE AOUIFER.
- 7. (U) CANO LIMON OFFICIALS TOOK EMBOFFS TO VISIT THE LANDFILL AREAS USED FOR TRASH. ONE LANDFILL IS DEDICATED FOR ORGANIC AND NON-TOXIC TRASH. THE OTHER LANDFILL IS THE FINAL RESTING PLACE FOR TOXIC WASTE.

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THE LATTER LANDFILL IS DOUBLE-LINED WITH PLASTIC, AND PARTICULARLY NASTY WASTES ARE ENTOMBED IN CONCRETE BLOCKS. A SMALL POND IS MAINTAINED NEARBY TO TREAT RAINFALL PUMPED OUT OF THE TOXIC-WASTE LANDFILL, BUT THE COMPANY PLANS TO BUILD A ROOF OVER THE LANDFILL TO ELIMINATE THE NEED FOR THE POND. EMBOFFS ALSO VISITED THE NURSERY USED IN THE COMPANY'S REFORESTATION PROJECT. THE NURSERY ANNUALLY PRODUCES 50 THOUSAND NATIVE TREES AND PLANTS.

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8. (U) SUPERVISORY PERSONNEL ARE HOUSED IN FAIRLY COMFORTABLE QUARTERS IN A CAMP NEAR THE MAIN PRODUCTION FACILITY. THE COMPANY MAINTAINS SEPARATE FACILITIES FOR THE PERMANENT EMPLOYEES, WHICH NUMBER AT ANY ONE TIME ABOUT 140, AND THE SPECIALIZED CONTRACTORS, WHICH NUMBER ABOUT 360. THE COMPANY ALSO EMPLOYS ANOTHER FEW HUNDRED DAY WORKERS FOR MENIAL TASKS, WHO ARE BUSED IN FROM THE NEIGHBORING CITY OF ARAUCA. THE DAY WORKERS ARE PAID FOR THEIR COMMUTING TIME. THE COMPANY PROVIDES AIR TRANSPORTATION FOR ITS SUPERVISORY AND CONTRACT WORKERS FROM BOGOTA OR BUCARAMANGA. THE WORKERS HAVE TWO KINDS OF SHIFTS, 16 DAYS ON AND 12 OFF, OR 14 DAYS ON AND 7 OFF. WHILE AT THE CAMP, THE EMPLOYEES CAN ENJOY TWO TENNIS COURTS, A SWIMMING POOL, A BASKETBALL COURT, A MICRO-SOCCER FIELD AND A SOFTBALL FIELD, AS WELL AS A WEIGHTROOM. LAUNDRY AND FOOD SERVICES ARE PROVIDED AS A BENEFIT. THE CAMP ALSO OPERATES A MEDICAL CLINIC. THE CLINIC IN THEORY PRIMARILY SERVES EMPLOYEES, BUT ALSO PROVIDES FREE TREATMENT OF ALL KINDS TO THE NEIGHBORING RESIDENTS. LAST YEAR, FOR EXAMPLE, THE CLINIC DELIVERED 140 BABIES. THE MAIN OCCUPATIONAL HAZARD IS AUDITORY PROBLEMS CAUSED BY THE PRODUCTION FACILITIES' HEAVY EQUIPMENT, DESPITE THE DOUBLE PROTECTION AFFORDED TO THE EARS (EARPLUGS AND PROTECTORS). SOME OF THE WORKERS ARE TRAINED TO BE FIREFIGHTERS, AND THE PRODUCTION FACILITY HAS PERIODIC FIRE AND SAFETY DRILLS.

9. (LOU) CANO LIMON'S OPERATIONS CHIEF, CIDER CARMONA, MENTIONED THAT THE DAY WORKERS FROM ARAUCA HAVE EXPRESSED SOME DISCONTENT AT THE LOW LEVEL OF LABORERS LIMITED OFFICIAL USE

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NEEDED FROM THE CITY, BUT THE DISCONTENT HAS NOT
RESULTED IN ANY LABOR PROBLEMS. FERNANDO GASTELBONDO,
WITH OPERATIONS IN BOGOTA, STATED THAT THE COMPANY HAS
HAD SOME MINOR LABOR PROBLEMS, SUCH AS SOME LOCALIZED
MINI-STRIKES DURING THE LAST CONTRACT NEGOTIATIONS. HE
NOTED THAT LESS THAN TEN PERCENT OF OCCIDENTAL'S
EMPLOYEES ARE UNIONIZED. NEVERTHELESS, ECOPETROL'S
UNION HAS BEEN TRYING TO HELP OCCIDENTAL'S UNION, AND
GASTELBONDO EXPECTS DIFFICULTY IN THE FUTURE WITH UNION
NEGOTIATIONS.

MARINE TERMINAL OPERATIONS

- 10. (U) ON NOVEMBER 29 AMBASSADOR AND EMBOFFS VISITED THE OIL EXPORT TERMINAL AT COVENAS, ABOUT 60 MILES SOUTH OF CARTAGENA, ON COLOMBIA'S CARIBBEAN COAST.
- 11. (U) THE MARINE TERMINAL CONSISTS OF THREE ELEMENTS: A SERVICE JETTY, A TANKER LOADING UNIT (TLU) AND A FLOATING STORAGE UNIT (FSU). THE FSU, AN IMMOBILIZED OIL TANKER WITH A 2.2 MILLION BARREL CAPACITY, RECEIVES,

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R 191405Z DEC 94
FM_AMEMBASSY BOGOTA
TO SECSTATE WASHDC 5912
INFO USDOC WASHDC
DIA WASHDC
AMEMBASSY PANAMA
AMEMBASSY QUITO

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AMEMBASSY CARACAS CIA WASHDC USDOE WASHDC

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PAGE 02 BOGOTA 18392 03 OF 03 191408Z STORES AND LOADS CRUDE OIL FOR EXPORT. THE TLU RECEIVES AND LOADS OIL, BUT HAS NO STORAGE CAPACITY. SOME TANKS ARE MAINTAINED ON SHORE. MR. NEWTON STATED THAT HE WOULD NORMALLY KEEP ABOUT 80,000 BARRELS IN STORAGE ON SHORE, BUT DUE TO THE ATTACKS KEEPS 170,000 BARRELS IN RESERVE, SINCE DELAYS IN LOADING RESULT IN DEMURRAGE FEES.

- 12. (U) THE TERMINAL ALSO OPERATES TWO CREW BOATS, FOR TRANSPORTING MATERIAL AND CREW, TWO POLLUTION CONTROL BOATS WHICH USE BOOMS TO CONTAIN SPILLS, AND AN OIL MOP, WHICH SUCKS UP SPILT OIL. ECOPETROL MAINTAINS A TREATMENT SHOP ON THE FSU FOR SLOP (OILY BALLAST WATER). THE TREATMENT SHOP DISCHARGES WATER AND RETURNS THE OIL TO THE STORAGE TANKS FOR SALE.
- 13. (U) ECOPETROL ONLY EMPLOYS 64 PEOPLE IN TOTAL TO OPERATE THE FSU, ONLY HALF OF WHOM ARE ON BOARD AT ANY GIVEN MOMENT. THE FSU OPERATES AROUND THE CLOCK, EXCEPT WHEN OPERATIONS ARE INTERRUPTED BY ATTACKS ON THE PIPELINE. THE WORKERS ARE PROVIDED TRANSPORTATION TO BOGOTA, BARRANQUILLA, AND CARTAGENA. ECOPETROL MAINTAINS TWO SHIFTS, LIKE THE OILFIELD AT CANO LIMON, BUT PLANS TO INSTITUTE IN THE COMING YEAR JUST THE ONE SHIFT OF 16 DAYS ON, 12 DAYS OFF. RECREATIONAL FACILITIES ARE LIMITED TO TELEVISION AND VIDEOS, AND A SMALL POOL.
- 14. (LOU) MR. NEWTON SPOKE TO THE AMBASSADOR AND EMBOFFS ABOUT THE FUTURE OF HIS COMPANY IN COLOMBIA. DESPITE THE GUERILLA PROBLEM, FOR WHICH NEITHER HE NOR HIS SECURITY CHIEF HAD ANY HOPE FOR SOLUTION, MR. NEWTON LIMITED OFFICIAL USE

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18392 03 OF 03 191408Z BOGOTA PLANS TO EXPAND OCCIDENTAL'S OPERATIONS. THE MAJOR . IMPEDIMENTS TO EXPANSION, IN HIS VIEW, INCLUDE THE HIGH TAX RATE AND THE LACK OF CERTAINTY IN THE TAX AND REGULATORY SCHEMES. HE MENTIONED THAT HIS COMPANY HAD CONVINCED THE OTHER MULTINATIONALS TO CHALLENGE THE WAR TAX IMPOSED BY COLOMBIA TO FIGHT THE GUERILLAS. HE OPINED THAT THE IMMEDIATE EFFECT, SHOULD THE CHALLENGE BE SUCCESSFUL, WOULD BE AN INCREASE IN THE TAX RATE. NEVERTHELESS, HE FELT THAT IF THE TAX RATE WERE TO BE MADE CLEAR AND CERTAIN, IT WOULD BE EASIER TO ATTRACT INVESTMENT CAPITAL. ANOTHER PROBLEM HE MENTIONED INVOLVES THE EXPLORATION FOR OIL HIS COMPANY PLANNED TO UNDERTAKE IN AREAS OCCUPIED BY INDIGENOUS PEOPLES. COLOMBIA'S NEW CONSTITUTION, ADOPTED IN 1991, REQUIRES THAT HE CONSULT WITH THE TRIBES, BUT THERE IS CURRENTLY NO MECHANISM OR REGULATORY SCHEME EXPLAINING HOW THAT CONSULTATION SHOULD BE UNDERTAKEN, WHICH CONSEQUENTLY IS HOLDING UP EXPLORATION AND DEVELOPMENT. NEVERTHELESS, MR. NEWTON CLEARLY INTENDS TO PURSUE THE EXPLOITATION OPPORTUNITIES, AND INCREASE THE PROFITABILITY OF OCCIDENTAL'S OPERATIONS. FRECHETTE

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